From:	Justin Mondshine <Justin@pointstate.com>
To:	Ehud Barak (ehbarak1@gmail.com) <ehbarak1@gmail.com>
CC:	Zach Schreiber <Zach@pointstate.com> Michelle Brouhard <Michelle.Brouhard@pointstate.com> Nikola Lahcanski <Nikola.Lahcanski@pointstate.com>
Date:	Tue, 2/3/2015 9:53:00 PM
Subject:	FW: (NYT) Saudi Arabia Is Said to Use Oil to Lure Russia Away From S

Ehud,

Do you have any insight into these discussions between the Saudis and Russians ? Supposing the Saudis did offer their support for a stronger crude market in exchange for cutting Assad off, do you think Putin would go for it ?

Best,

Justin

-----Original Message-----
From: Justin Mondshine (POINTSTATE CAPITAL L) [mailto:jmond@bloomberg.net]
Sent: Tuesday, February 03, 2015 12:21 PM
Subject: (NYT) Saudi Arabia Is Said to Use Oil to Lure Russia Away From S

(NYT) Saudi Arabia Is Said to Use Oil to Lure Russia Away From S yria's Assad

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Saudi Arabia Is Said to Use Oil to Lure Russia Away From Syria's Assad
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Saudi Arabia Is Said to Use Oil to Lure Russia Away From Syria's Assad

By MARK MAZZETTI, ERIC SCHMITT and DAVID D. KIRKPATRICK
(New York Times) -- WASHINGTON — Saudi Arabia has been trying to pressure President Vladimir V. Putin of Russia to abandon his support for President Bashar al-Assad of Syria, using its dominance of the global oil markets at a time when the Russian government is reeling from the effects of plummeting oil prices.
Saudi Arabia and Russia have had numerous discussions over the past several months that have yet to produce a significant breakthrough, according to American and Saudi officials. It is unclear how explicitly Saudi officials have linked oil to the issue of Syria during the talks, but Saudi officials say — and they have told the United States — that they think they have some leverage over Mr. Putin because of their ability to reduce the supply of oil and possibly drive up prices.
"If oil can serve to bring peace in Syria, I don't see how Saudi Arabia would back away from trying to reach a deal," a Saudi diplomat said. An array of diplomatic, intelligence and political officials from the United States and Middle East spoke on the condition of anonymity to adhere to protocols of diplomacy.
Any weakening of Russian support for Mr. Assad could be one of the first signs that the recent tumult in the oil market is having an impact on global statecraft. Saudi officials have said publicly that the price of oil reflects only global supply and demand, and they have insisted that Saudi Arabia will not let geopolitics drive its economic agenda. But they believe that there could be ancillary diplomatic benefits to the country's current strategy of allowing oil prices to stay low — including a

chance to negotiate an exit for Mr. Assad. Mr. Putin, however, has frequently demonstrated that he would rather accept economic hardship than buckle to outside pressures to change his policies. Sanctions imposed by the United States and European countries have not prompted Moscow to end its military involvement in Ukraine, and Mr. Putin has remained steadfast in his support for Mr. Assad, whom he sees as a bulwark in a region made increasingly volatile by Islamic extremism.

Syria was a major topic for a Saudi delegation that went to Moscow in November, according to an Obama administration official, who said that there had been a steady dialogue between the two countries over the past several months. It is unclear what effect the Jan. 23 death of King Abdullah of Saudi Arabia might have on these discussions, which the Saudis have conducted in secret.

Russia has been one of the Syrian president's most steadfast supporters, selling military equipment to the government for years to bolster Mr. Assad's forces in their battle against rebel groups, including the Islamic State, and supplying everything from spare parts and specialty fuels to sniper training and helicopter maintenance.

With a fifth of the world's oil reserves, Saudi Arabia is the leading player in OPEC and has great sway over any move by the cartel to raise prices by cutting production. Its refusal to support such steps despite dizzying price declines has prompted myriad theories about the Saudi royal family's agenda, and Saudi officials have hinted that the country is happy to let the low prices punish rival producers who use more expensive shale-fracking techniques.

"They have almost total leverage," said Senator Angus King, an independent of Maine who recently returned from a trip to Saudi Arabia.

"They have more breathing room than these other countries,"

he said. "It's like the difference between someone having a million dollars in the bank and someone who is living paycheck to paycheck."

The drop in oil prices has been felt in Saudi Arabia, but the country's vast oil reserves and accumulated wealth give it a far greater cushion than other oil-producing nations have. Saudi Arabia needs the price of oil to be over $100 a barrel to cover its federal spending, including a lavish budget for infrastructure projects. The current price is about $50 a barrel, and Saudi Arabia has projected a 2015 deficit of about $39 billion.

But the monarchy has about $733 billion in savings invested in low-risk assets abroad, and it can afford to dip into that for a few years without much pain. Russia and Iran have no such luxury, and neither do shale-fracking oil producers in North America.

The Saudis have offered economic enticements to Russian leaders in return for concessions on regional issues like Syria before, but never with oil prices so low. It is unclear what effect, if any, the discussions are having. While the United States would support initiatives to end Russian backing for Mr.

Assad, any success by the Saudis to cut production and raise global oil prices could hurt many parts of the American economy.

After the meeting in Moscow in November between Prince Saud al-Faisal, the Saudi foreign minister, and Sergey V. Lavrov, the Russian foreign minister, Mr. Lavrov rejected the idea that international politics should play a role in setting oil prices.

"We see eye to eye with our Saudi colleagues in that we believe the oil market should be based on the balance of supply and demand," Mr. Lavrov said, "and that it should be free of any attempts to influence it for political or geopolitical purposes."

Russia is feeling financial pain and diplomatic isolation because of international sanctions stemming from its incursion into Crimea and eastern Ukraine, American officials said. But Mr.

Putin still wants to be viewed as a pivotal player in the Middle East. The Russians hosted a conference last week in Moscow between the Assad government and some of Syria's opposition groups, though few analysts believe the talks will amount to much, especially since many of the opposition groups boycotted them. Some Russia experts expressed skepticism that Mr. Putin would be amenable to any deal that involved removing support for Mr. Assad.

"It would be a huge change, and to me, this is an unlikely scenario," said Angela E. Stent, a Russia specialist at Georgetown's School of Foreign Service and a former senior national intelligence officer who focused on Russia.

Saudi Arabia's leverage depends on how seriously Moscow views its declining oil revenues. "If they

are hurting so bad that they need the oil deal right away, the Saudis are in a good position to make them pay a geopolitical price as well," said F.
Gregory Gause III, a Middle East specialist at Texas A&M's Bush School of Government and Public Service.
For his part, Mr. Assad has shown no inclination to step aside. He said in a recent interview with Foreign Affairs magazine that the true threat in Syria comes from the Islamic State and Qaeda-affiliated groups that, in his words, make up the "majority" of rebellion.
American and Arab officials said that even if Russia were to abandon Mr. Assad, the Syrian president would still have his most generous benefactor, Iran. Iranian aid to the Syrian government has been one of the principal reasons that Mr. Assad has been able to hold power as other autocrats in the Middle East have been deposed.
And as a major oil producer, Iran would benefit if Saudi Arabia helped push up oil prices as part of a bargain with Russia.
"You are going to strengthen your enemy whether you like it or not, and the Iranians are not showing any flexibility here,"
said Mustafa Alani, an analyst at the Gulf Research Center who is close to the Saudi royal family.
But the military aid that Russia provides to Syria is different enough from what Damascus receives from Iran, its other major supplier, that if "Russia withdrew all military support, I don't think the Syrian Army could function," a senior Obama administration official said.
A number of Arab nations have been pushing for the Saudis and Russians — polar extremes in their positions toward Mr. Assad — to find common ground on the matter as a step toward ending the carnage of Syria's civil war, now almost four years old.
But, as one Arab diplomat put it, "This decision is ultimately in Putin's hands."
Clifford Krauss contributed reporting from Houston.

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